THE SUPPLY REQUIREMENTS BALANCE FOR SUGAR *

Mr. President, Members and Guests of the National Confectioners' Association:

It has been a number of years, too many from my point of view, since I met with you in Chicago. Therefore, I am especially grateful to your Program Committee for permitting me to be with you again. Rarely has there been a time when consultation with sugar consumers and industrial users was so needed.

Today the sugar market is in a state of panic. World prices have risen from the disastrously low point of around 2 cents per pound for raw sugar in January 1962 to over 11 cents. Our United States sugar legislation contains a formula which at present establishes 6.6 cents per pound, duty paid New York, as the domestic price objective. In contrast, the domestic price of raw sugar last Friday was over 12 cents per pound.

If we are to understand this situation and make sound appraisals, we must examine the basic facts. The major important facts underlying the present sugar situation are fairly simple.

Production

1. World sugar production has fallen. Serious declines in Europe and Cuba have been offset only partially by production increases elsewhere. World production in the crop year beginning October 1, 1960, reached the record level of 60 million tons. Last year it fell to 56 million tons. Current year reports from Cuba and elsewhere make it apparent that world production this year will be less than 56 million tons.

---

* Address by Lawrence Myers, Director, Sugar Policy Staff, Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture, before the National Confectioners' Association, Washington, D.C., May 22, 1963.

2. European production of beet sugar reached a peak of 15.8 million tons from the 1960 crop. Because of bad weather it fell to 13 million tons in 1962 and to around 12.3 million tons from the crop harvested last fall.

The 1963 sugarbeet acreage in Europe was increased only moderately and, as a result of a late spring, the crop was planted later than usual. The sugar market registered its disappointment at those developments. Certainly this would be the year of years for Europe to produce a bumper crop of beet sugar and a greatly increased acreage planted early would have been a good omen. It is a fact, however, that the European beet acreage tends to be rather stable. Moreover, the possibility of average or normal yields must not be ruled out. Bad weather will not always interfere with European sugar beet production.

3. The major change in the free world sugar situation, and in the supply problem for the United States, has been the loss of Cuba to Communism.

Cuba was the world's largest sugar exporter. For years it produced over 6 million tons annually and had the ability to increase its production whenever the world's markets could absorb a full harvest.

It supplied the United States around one-third of its total sugar
somewhat
requirements or/over 3 million tons annually. It shipped somewhat less than that to other countries.

In the spring of 1961 the Castro Government harvested all the cane standing and produced 7.5 million tons of sugar. Last spring its production fell to 5.4 million short tons and recent newspaper comments suggest it may be less than 4 million tons during the current year. Regardless of the exact figures, it is obvious that Communism in Cuba has brought disaster to its sugar industry.

(more)

Although the drastic cut in Cuban sugar production is dramatic, we should also observe that in recent years Cuba has shipped the bulk of its sugar to Communist countries, particularly to the Soviet Union and Communist China. Last fall it even shipped the Soviet Union its normal reserve supplies. This is one reason that Cuba has not been able to profit more from the recent rise in world sugar prices.

In appraising the Cuban developments on free world sugar supplies, it should be recalled that Cuba, according to trade reports, shipped the free world only about 1.4 million metric tons in 1962. Again relying upon what we read in the newspapers, Cuba apparently will supply the free world around 1.2 million metric tons in 1963. Although Cuba's shipments to the free world in 1963 may approximate 4 million tons below those of the pre-Castro days, the reduction from 1962 probably will be minor. It would appear that the big cut in Cuba's exports in 1963 will be in those to the Communist countries.

World production outside Europe and Cuba has been increasing and continues to increase. Last year production in the world outside Europe and Cuba reached a peak of 39 million tons, up around 2-1/4 million tons from that of 1960-61. Around 400,000 tons of that increase came right here in the United States. The significance of these figures may be illustrated by pointing out that world production excluding Europe and Cuba will be about the same this year as it averaged including Europe and Cuba in the first half of the 1950's.

(more)

Consumption and Stocks

The trend of world consumption has been sharply upward. In 1961-62 world consumption apparently amounted to around 58,000,000 tons compared with world production of 56,000,000 tons. Accordingly, world stocks were reduced 2,000,000 tons. World consumption this year will depend upon the extent to which world sugar stocks will be depleted.

More important to us, however, is whether any reduction in world consumption that may occur will come in the Communist countries or in the free world. In view of their large takings of Cuban sugar through last year, the Soviet Union may wish to reduce its stocks in view of present high prices.

The developments outlined above have changed the world sugar situation from one of growing surpluses to one of shortage. Through the crop year 1960-61 world stocks were increasing. In 1961-62 world stocks were reduced but the reduction was not felt. Starting last fall the world sugar market began to reflect relief from the past surpluses. As late as last October, however, sugar was still being sold at reduced prices for livestock feed.

The late recognition of the change from a surplus to a tight supply situation may account for a large part of the violence of recent market reaction. For years our entire sugar trade, from refiner to ultimate user, has been accustomed to obtaining supplies from Cuba on short notice. We have not yet adjusted our buying practices to the loss of Cuba. This is not to discount the importance of continuing bad news throughout the late winter and early spring.

(more)

Now let us take a look at our domestic consumption and stocks. Sugar consumption in the United States has averaged 103.4 pounds, raw value, per capita ever since sugar rationing was terminated in 1947. The exact average will differ slightly depending upon the period used in computing it, but there is no evidence of any significant trend in per capita consumption. Accordingly, when per capita distribution falls below 103 pounds annually, one may reasonably conclude that invisible stocks (those held by distributors, household consumers, and industrial users) have been decreased. When distribution exceeds 104 pounds per capita it is clear that such stocks have been increased. Apparently, per capita inventories were reduced slightly in 1960 but they were increased in both 1961 and 1962. It is apparent, therefore, that we entered 1963 with invisible stocks at a fairly high level.

Late in 1962 there appeared to be a build-up of 100,000 tons of invisible inventories in apparent fear of a resumption of the longshoreman's strike at the turn of the year.

With the sharp increases in prices during the current calender year distribution increased, and through May 11 was approximately one-half million tons higher than for the corresponding period a year ago. Therefore, it is safe to say that invisible inventories of sugar have risen by around 600,000 tons since the current build-up started last fall. In addition, it is well known that many industrial users, particularly the large ones, have protected their future supplies by purchasing contracts for future delivery on the exchange. Perhaps others have made still different arrangements.

We do not know how far the present stockpiling movement will go or how long it will last. There comes a time in each price and distribution spiral, however, when our distributors and users stop building up inventories and start to work them down to normal proportions.

Department's Actions

The action of the Department of Agriculture last December in establishing total quotas at 9,800,000 tons for 1963 recognized a probable consumption of around 9,850,000 tons and a probable refiner's loss of 50,000 tons. Against this total need of 9,900,000 tons, 100,000 tons could have been met by last fall's increase in invisible inventories.

Our action of May 6 increasing the total quota figure to 10,400,000 tons was made in recognition of the continuation of the movement to increase invisible stocks.

Obviously, the American housewife and the American industrial user together will not consume anything like 10,400,000 tons of sugar in 1963. Our task in the Department of Agriculture, however, is to establish quotas that, if possible, will provide for actual consumption and also any additional stockpiling movements that may occur.

On April 24 the Department issued a press release showing that all of the Western Hemisphere and global quota sugar had been charged to quotas for present or future importation but that slightly less than 40 percent of the basic country quotas had been so charged by the close of business April 23. Although we were not in doubt about our obtaining most, if not all, of the remaining 60 percent of the country quota sugar, we were concerned about the timing of such imports.

At this point it might be worthwhile to note certain differences in the procedures and market practices under the competitive, flexible global and Western Hemisphere quotas and under the basic statutory country quotas. Under the Western Hemisphere and global quotas, any supplier in an exporting country with which we maintain diplomatic relations in this hemisphere or in the world, respectively, is able to offer sugar. These quotas are assigned to countries submitting offers on a competitive first-come first-served basis. Such quotas tend, therefore, to be filled promptly under ordinary conditions. In view of this, and to provide orderly marketing, the Department permits such sugar to be charged to quota several months in advance of importation on application supported by an irrevocable letter of credit providing for liquidated damages in the event the sugar is not imported. A country quota on the other hand is guaranteed to the exporting country under the Sugar Act unless the Secretary of Agriculture makes a determination that the country is not able to fill its quota. Therefore, such sugar tends to be marketed in a more leisurely way and to be charged to quotas only at time of actual shipment or arrival in U.S. port.

To resolve uncertainties about foreign supplies, the Department of Agriculture had our foreign Embassies and Consulates make inquiries to determine the extent and timing of marketings under the unfilled portions of the country quotas. We have obtained replies from most of the foreign countries although we are still missing a few.

Replies received to date cover the delivery of all but about 350,000 tons of the country quotas of 2,600,000 tons. We anticipate that the residual soon will be reduced to around 100,000 tons or less.

(more)

When our quota action was taken on the evening of May 6, the combined global and Western Hemisphere quotas were increased by 413,000 tons. By the close of business on May 17, 175,000 tons of sugar had been committed against these two competitive quotas. This was most gratifying in view of the very sharp rise in prices that occured during this period. Apparently, a good many owners of sugar were willing to sell. I might add that we are assured of larger offerings as soon as crop outturns become available.

As matters stand, therefore, it would appear that we have commitments or supplies to cover the 9,800,000 tons of supplies actually required for consumption this year. As soon as we receive a reply from the Dominican Republic and perhaps some others who have not yet replied, the supplies in sight should be well over 10 million tons. There is every reason to anticipate additional commitments of all or part of the remaining uncommitted 238,000 tons of Western Hemisphere and global supplies.

The major unknown in the present equation, therefore, appears to be the extent of the stockpiling movement now going on in this country.

To summarize on the situation:

1. We appear to have in sight or in reasonable prospect more sugar than householders, institutions and industrial users will consume during the current calendar year.

2. Prospective supplies should be sufficient to permit some modest continuation for 1963 as a whole of the stockpiling of invisible supplies that went on in 1962 and in 1961. Naturally, at a time of world shortage there is a limit in the degree to which stockpiling, or hoarding if you wish a stronger term, can go.

3. We do not yet have final shipping schedules from some of our major suppliers under our country quotas. As of today, it appears that we need larger supplies for July and August arrival and in view of recent rates of distribution larger arrivals in June would be desirable. We hope that they will be assured when we obtain final reports from our two major foreign quota suppliers. Summer requirements may also be met by the moving forward of actual arrival dates of global and Western Hemisphere sugar or by new procurements.

4. It would be futile to attempt to make guesses about the peak of prices or about the extent to which the stockpiling of sugar, either in the form of actual sugar or in the form of futures, will go. It would also be futile, and indeed improper, to make suggestions about stockpiling. All that we know about this subject is that while prices are rising, processors and distributors with small stocks are at a competitive disadvantage. Likewise, when prices start to recede those with large stocks are at a competitive disadvantage. At some point in such crises, prices reach a peak and buyers reduce their purchases. In 1920 during the "Dance of the Millions" most of the sugar price increase came during a two-month period, after which prices receded.

Some aspects of the longer-time situation appear to be in reasonably clear focus.

1. The loss of Cuba to Communism and the resultant reduction in Cuban sugar production will leave a big hole in world supplies. The old familiar world sugar surplus situation seems unlikely to return while Cuba remains in

(more)

the Communist fold and while there is a reluctance to invest capital in other areas of great potential expansion in sugar production. Even after Cuba returns to the free world, it will take an extended period to rehabilitate the Cuban sugar industry.

2. There is little likelihood of any disastrously low world sugar prices of 2 or 3 cents, or even 4 cents per pound.

3. The United States will be forced to shop among the friendly sugar exporting countries throughout the world for its sugar supplies and our buyers will be forced to pay substantially the world price for its sugar.

There seems to be a great deal of confusion about our sugar quotas and sugar prices.

Our sugar quota system was devised to support domestic prices at levels above those existing in the world market. Under normal conditions it has done so.

If I may divert for an observation, I know that many of you consumers have questioned the advisability of maintaining what was once referred to as "the necessarily costly" domestic sugar industry. Now that we have lost Cuban supplies, I am sure you consumers are happy that you can look forward to having 60 percent of your future requirements assured from domestic sources.

Returning now to the point we were discussing, it was pre-Castro Cuba that over the years adjusted its marketings to our requirements. Twice during the post-war period Cuba sold us sugar at ~~less than the~~ prices below those prevailing in the world market. Cuba had both the incentive

and the ability to provide the United States with sugar supply and price protection. Cuba supplied us with roughly one-third of our total requirements and was the principal beneficiary of all increases in United States import requirements. Over the years Cuban producers were paid a billion dollars in price premiums on the sugar they sold under quotas to the United States. Obviously, the Cuban industry was far too intelligent to jeopardize the system by charging the American consumer all the market would bear in the two post-war periods, namely the Korean and Hungarian-Suez crises, when world prices rose above a parity with prices in the United States.

Even more important than Cuba's desire to support our country's sugar supply lines and price objectives, was its ability to do so. It produced more than twice the quantity it shipped to us and normally it carried over at the end of each year from one to three million tons of sugar in the bag or in cane. Therefore, it had the ability to flood this market with sugar on short notice.

No other country or group of countries has the reserve supplies necessary to provide either the ability or the incentive that pre-Castro Cuba had to sell this country sugar below world market prices.

The temporary loss of Cuba and the passing of world sugar surpluses does not spell disaster for the American consumer. We do not need a return to surpluses and disastrously low world prices to obtain significant relief from the present situation.

An average crop of beet sugar in Europe this fall would provide considerable relief from the present tight supply situation.

Outside Europe and Cuba there has been a steady growth in production. It seems reasonable to assume that this will be continued and probably stimulated by present high prices.

In our domestic areas production increased about 400,000 tons in the past three years and barring serious crop losses it should increase at least an additional one-half million tons from our next crops. As you know, we have no restrictions on production in any domestic area.

The most important matter in dealing with our current situation is the adequacy and timing of imports. As pointed out above, we have either under commitment, or assurances, supplies to meet our actual consumption requirements (including industrial usage) this year. We feel confident that more complete responses to our inquiries will add to our summer supplies and provide for even larger invisible stocks at the end of this year than we had at the end of 1962.

Admittedly, and emphatically, the sugar situation is tight and could be thrown further out of balance by a continued hoarding movement.

Various suggestions have been made for dealing with the present emergency.

1. Eliminate futures trading.

Frankly, it is difficult to see how this could bring a price reduction. Rather it would prevent hedging and thereby add to the risks and costs of supplying this country with sugar. Even more important to many industrial users, probably including some in this room, it would terminate contracts made to cover future supplies. Some of you, therefore, would lose the protection you now have.

2. Eliminate the tariff.

This would require legislation. If a period of time were permitted for hearings and debates it could delay sales and imports of sugar to the United States. The harmful effects of delaying sales and imports into the United States could far outweigh any possible benefits.

3. Eliminate the processing tax.

Legislation involving the nature of the sugar program would probably take too much time for dealing with an acute emergency.

4. Eliminate the global quota.

We now have over a million and a half tons of sugar either delivered or guaranteed to this market under the global quota. To suggest giving up these supplies is to suggest disaster. The global quota and the closely related Western Hemisphere quota have given flexibility in obtaining supplies that were vitally necessary.

5. Increase quotas.

This has been done.

6. Eliminate all quotas.

This, of course, is the exact converse of adopting a complete country quota system.

Since quotas are restrictive devices, it is fair to place them on the defensive in any period of shortage. At the present juncture, however, it would seem that American consumers have more to gain than to lose by keeping them in effect. The present global and Western Hemisphere quotas permit the purchase and importation of raw sugar for refining from any foreign country with which we have diplomatic relations. The only sugar that is being

excluded is direct-consumption sugar and, frankly, we are not aware of large quantities of refined sugar that could be procured and imported for direct consumption at this time.

As I reported to you earlier almost all foreign countries having unfilled country quotas have promised to fill such quotas and have given us their intended delivery dates. We are continuing to press for reports from the remaining countries and we are urging some to advance their shipping dates to meet our peak summer requirements.

It must be emphasized that foreign countries in asking for and obtaining statutory quotas under which they can sell in our market undertook moral obligations to fill those quotas in accordance with the seasonal requirements of our market. As a matter of fact, many of their spokesmen gave assurances that under the country quota system their countries not merely would supply the sugar specified by the quotas but would hold adequate reserve supplies so that they could, in truth, replace Cuba as assured sources of supplies at stable prices for the United States. We must accept the recent assurances we have received that the country quotas will be filled. In dealing with the present emergency, therefore, there would seem to be little to gain and much to lose in abolishing quotas.

It goes without saying that 1964 quotas must be large enough to permit the American consumer to obtain all the sugar he desires, whether for consumption or for stocks. We have no reason to doubt that timely action will make it possible for our importers to obtain adequate supplies in 1964.

(more)

It must be made abundantly clear to our foreign suppliers, however, that this country's actions with respect to quotas in 1964

will be dependent upon their actions in filling our requirements this year. Although the vast majority of foreign country quota holders are doing a splendid job in filling those quotas, some of you are disturbed at the occasional reports of sales into the world market by those who have not yet filled their respective quotas for sale to the United States. A few individuals seem to be delaying their sales to this market to see how high the price will go. It is hoped the respective governments will call to the attention of the members of their sugar industry the commitments and dangers involved.

Finally, in meeting our future sugar requirements it is not sufficient to consider only the actions of the United States Government and of our foreign suppliers. Our own sugar trade needs to adjust its procurement practices to the loss of Cuba. If our refiners are to be successful in obtaining supplies under today's conditions, they must be prepared to make commitments much farther in advance than was necessary in the old days of pre-Castro Cuba and world sugar surpluses.

USDA 1686-63